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Naval Postgraduate School Barometer

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Naval Postgraduate School Business School Barometer '70 / v.2-8

Monterey, California. Naval Postgraduate School

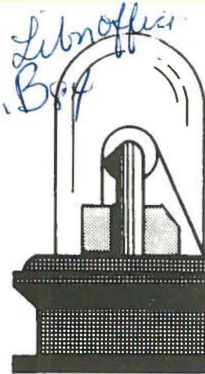
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BUSINESS BAROMETER '70

Vol. II, No. 8

INVESTMENT POSSIBILITIES

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Department of Business Administration and Economics

Now that the market has broken through another of those psychological barriers it may be that we are in store for a steady up-turn. It should be noted that the market is up from the May lows of 620 on the Dow Jones Industrial Average to the 760 range on opening today. What has been significant in recent months is the "roller coaster" effect of large swings in prices on a daily and weekly basis. This makes for large profits and losses for short term speculators.

Most market analysts predict a wave of favorable economic news for the short term, at least. New 71 auto production has begun, new flows of cash into mutual funds with a large cash position already, and reports from government on favorable economic indicators lead to optimism.

It seems to me that a prudent investor would begin to study the bond market for a long term purchases for both income and capital gain. With the current expansion of the money supply, under the direction of Chairman Burns, coupled with the expansionary fiscal program of the administration lower long term interest rates seem assured. An investor who purchases a corporate or government bond at a discount, has a good chance of earning a historically high interest rate and a guaranteed capital gain when the bond matures. The risk factor for bonds is less than stock, in general, for two reasons. First bond holders are first in line if the company fails and second this risk is evaluated by outside professionals such as Standard and Poors and Moody's Investors. These firms evaluate the risk factors and publish the results for the investment community. One problem arises, brokers do not receive the same commission rate on bonds as on stock-less for bonds. Thus your interest may come second to those of your broker. If your broker can't or won't talk about bonds find a different broker. In these hard times you can find some one to take your money. If you purchase bonds at the deep discounts and high interest (close to 9%) plan to hold them until maturity. Pick a specific date, such as graduation of your children, when you reach retirement age ect... then you will have no problem about resale.

When you ask your broker about bonds he will probably suggest mutual funds. Those funds with a higher than average return might be considered at the present time. The best bet are "no load" which are no sales charge funds. If the fund has a sales charge (usually more than 7%) be sure to receive something for that commission. You should be able to obtain a complete financial plan of all your assets from will and trusts to portfolio management. Some sales charges are not justified if all the salesman does is take your money!